

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name SHELBY PUBLIC SCHOOLS	County OCEANA
Audit Date JUNE 30, 2005	Opinion Date AUGUST 19, 2005	Date Accountant Report Submitted to State OCTOBER 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the over funding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road	City Horton	State MI	Zip 49246
Accountant Signature 			

**SHELBY
PUBLIC
SCHOOLS**

**FINANCIAL
STATEMENTS**

JUNE 30, 2005

SHELBY PUBLIC SCHOOLS

	<u>PAGE</u>
TABLE OF CONTENTS	
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3-10
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds.....	14
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Fiduciary Fund:	
Statement of Fiduciary Net Assets.....	16
Notes to Financial Statements.....	17-29
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - General Fund.....	31
Budgetary Comparison Schedule - Debt Service.....	32
Budgetary Comparison Schedule - Food Service.....	33
OTHER SUPPLEMENTAL INFORMATION	
GENERAL FUND	
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual.....	35-38
SPECIAL REVENUE FUNDS	
Combining Balance Sheet.....	40
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual.....	41-42
DEBT RETIREMENT FUNDS	
Combining Balance Sheet.....	44
Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual.....	45-46

	<u>PAGE</u>
AGENCY FUNDS	
Statement of Assets and Liabilities.....	48
Combining Statement of Changes in Assets and Liabilities.....	49
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES	
High School Internal Activities Fund.....	50
Middle School Internal Activities Fund.....	51
Benona Elementary Internal Activities Fund.....	52
Ferry Elementary Internal Activities Fund.....	52
New Era Elementary Internal Activities Fund.....	53
Thomas Read Elementary Internal Activities Fund.....	53
Central Office Internal Fund.....	54
STATEMENTS OF BONDED INDEBTEDNESS.....	56-59
FEDERAL FINANCIAL ASSISTANCE	
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS.....	61-62
FOOTNOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS.....	63
SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS.....	64
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	65-66
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	67-68
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	69
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	70

LIST OF PRINCIPAL INDIVIDUALS

June 30, 2005

Board of Education

Doug Fris	President
Steven Vinke	Vice President
Linda Peterson	Secretary
Leon Kay	Treasurer
Michael McGovern	Board Member
Craig Sawyer	Board Member
Jeremy Horton	Board Member

Management

Dana McGrew	Superintendent
Beverly Holmes	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm, P.C.	Attorney

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kldrake@voyager.net

INDEPENDENT AUDITOR'S REPORT

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Public Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shelby Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Public Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 31-33 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Shelby Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby Public School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

August 19, 2005

This section of Shelby Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Shelby Public Schools financially as a whole.

The *District-wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Food Service Fund, and Debt Funds, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Federal Financial Assistance

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, childcare, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting The School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Reporting The School District's Fiduciary Responsibilities -The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2005:

TABLE I	Governmental Activities (In Millions)
ASSETS	
Current and other assets	\$ 6.7
Capital assets - Net of accumulated depreciation	<u>17.3</u>
TOTAL ASSETS	<u>24.0</u>
LIABILITIES	
Current liabilities	3.1
Long-term liabilities	<u>13.1</u>
TOTAL LIABILITIES	<u>16.2</u>
NET ASSETS	
Invested in property and equipment - Net of related debt	4.6
Restricted	.2
Unrestricted	<u>3.0</u>
TOTAL NET ASSETS	<u>\$ 7.8</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$7.8 million at June 30, 2005. Capital assets, net of related debt totaling \$4.6 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$3.0 million) was unrestricted.

The \$3.0 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

TABLE 2	Governmental Activities	
	(In Millions)	
	2005	2004
REVENUE		
Program Revenue		
Charges for services	\$ 0.3	\$ 0.4
Grants and categoricals	3.6	3.5
General Revenue		
Property taxes	3.5	3.3
State foundation allowance	10.5	10.5
Other	0.4	0.4
TOTAL REVENUE	\$ 18.3	\$ 18.1

FUNCTION/PROGRAM EXPENSES	2005 (In Millions)	2004 (In Millions)
Instruction	\$ 10.3	\$ 9.7
Support Services	5.7	5.1
Food Services	0.5	0.6
Athletics	0.4	0.4
Community Services	0.6	0.5
Interest on long-term debt	0.6	0.6
Depreciation (unallocated)	0.6	0.3
TOTAL FUNCTION/PROGRAM EXPENSES	18.7	17.2
INCREASE <DECREASE> IN NET ASSETS	\$ -0.4	\$ 0.9

As reported in the statement of activities, the cost of all of the governmental activities this year was \$18.7 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$3.6 million). The remaining “public benefit” portion of the governmental activities was paid with \$3.5 million in taxes, \$10.5 million in State Foundation Allowance, and with other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$0.4 million. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$4.4 million, which is a decrease of \$1.6 million from last year. The primary reasons for the decrease are additional expenditures. The General Fund, our principal operating fund, saw the fund balance decrease \$1,525,129 to \$4,069,736, which is less than the budgeted decrease of \$1,945,438.

- The Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately \$420.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately \$41,875. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Each month as necessary, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund budget were as follows:

- Budgeted revenues were increased \$331,289 due mainly to additional funding received from federal sources.
- Budgeted expenditures were increased \$912,115 to cover the costs of capital repairs in the district and also to cover the dramatic increase in the cost of fuel for the buses. Additionally, the budget had to be approved prior to the final notification of a larger-than-expected increase in health insurance.

Capital Asset And Debt Administration**Capital Asset**

At June 30, 2005, the School District had \$25.4 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$691,282 or 3 percent, from last year.

	<u>2005</u>	<u>2004</u>
Land	\$ 231,991	\$ 231,991
Buildings	21,281,293	20,523,857
Buses and Other Vehicles	1,370,366	1,370,366
Furniture and Equipment	<u>2,505,888</u>	<u>2,572,042</u>
Total Capital Assets	<u>25,389,538</u>	<u>24,698,256</u>
Less Accumulated Depreciation	<u>8,095,270</u>	<u>7,508,751</u>
Net Capital Assets	<u>\$ 17,294,268</u>	<u>\$ 17,189,505</u>

The additions for this year included roof, windows, hvac improvements, and technology. No debt was issued for these additions.

Debt

At the end of this year, the School District had \$12.7 million in bonds outstanding versus \$13.9 million in the previous year - a decrease of 5 percent. Those bonds consisted of the following:

	<u>2005</u>	<u>2004</u>
General Obligation Bonds	\$ 12,714,125	\$ 13,867,925

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$12.7 million is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences. More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

The District's elected officials and administration considered many factors when setting the 2006 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 20 percent of the February 2005 student count and 80 percent of the September 2005 student count. The 2006 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 81 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate no growth in the fall 2005 student count. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Insurance rates have increased 11.98%, for the 2005-2006 school year, and the cost of retirement will rise from 14.87% to 16.34% on October 1, 2005. These increases along with salary, fuel and utility increases will be difficult to continue to cover as long as the State foundation allowance is less than needed to cover increased fixed costs.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenues.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Shelby Public School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 525 N. State Street, Shelby, Michigan 49455.

SHELBY PUBLIC SCHOOLS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 4,155,470
Due From Other Governmental Units	2,512,897
Accounts Receivable	15,959
Inventories	62,468
Prepaid Expenditures	17,280
Total Current Assets	<u>6,764,074</u>
Non-current Assets	
Capital Assets	25,389,538
Less: Accumulated Depreciation	<u>-8,095,270</u>
Total Non-current Assets	<u>17,294,268</u>
TOTAL ASSETS	<u>\$ 24,058,342</u>
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 369,145
Accrued Salaries and Expenses	1,764,314
Accrued Interest	107,948
Deferred Revenue	198,786
Bonds Payable, Due within One Year	682,471
Total Current Liabilities	<u>3,122,664</u>
Non-current Liabilities	
Bonds Payable (Note 7)	12,031,654
Compensated Absences and Severance Pay (Note 7)	<u>1,055,519</u>
Total Non-current Liabilities	<u>13,087,173</u>
TOTAL LIABILITIES	<u>16,209,837</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,580,143
Restricted for Debt Service	252,008
Unrestricted	<u>3,016,354</u>
TOTAL NET ASSETS	<u>7,848,505</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,058,342</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

		Program Revenues		Governmental Activities
		Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS				
Governmental Activities				
Instruction	\$ 10,268,273	\$ 1,621	\$ 2,626,988	\$ -7,639,664
Support Services	5,749,346	10,154	110,684	-5,628,508
Food Services	520,617	177,627	369,768	26,778
Athletics	367,954	36,927	---	-331,027
Community Services	560,078	57,016	440,236	-62,826
Interest on Long-Term Debt	551,840	---	---	-551,840
Depreciation (Unallocated)	<u>599,962</u>	<u>---</u>	<u>---</u>	<u>-599,962</u>
Total Governmental Activities	<u>\$ 18,618,070</u>	<u>\$ 283,345</u>	<u>\$ 3,547,676</u>	<u>-14,787,049</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				1,838,361
Property Taxes, Levied for Debt Service				1,678,285
State of Michigan Aid, Unrestricted				10,519,569
Interest Earnings				92,893
Other				<u>308,225</u>
Total General Revenue				<u>14,437,333</u>
CHANGE IN NET ASSETS				-349,716
NET ASSETS - BEGINNING OF YEAR				<u>8,198,221</u>
NET ASSETS - END OF YEAR				<u>\$ 7,848,505</u>

See Accompanying Notes to Financial Statements.

SHELBY PUBLIC SCHOOLS

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	Food Service	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 3,805,857	\$ 94,944	\$ 252,169	\$ 2,500	\$ 4,155,470
Accounts Receivable	10,734	4,147	189	---	15,070
Due from Other Governmental Units	2,512,897	---	---	---	2,512,897
Due from Other Funds	889	2,812	---	6,279	9,980
Inventories	56,786	5,682	---	---	62,468
Prepaid Expenditures	17,280	---	---	---	17,280
TOTAL ASSETS	\$ 6,404,443	\$ 107,585	\$ 252,358	\$ 8,779	\$ 6,773,165
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 368,795	\$ ---	\$ 350	\$ ---	\$ 369,145
Accrued Salaries and Withholdings	1,758,035	---	---	6,279	1,764,314
Due to Other Funds	9,091	---	---	---	9,091
Deferred Revenue	198,786	---	---	---	198,786
TOTAL LIABILITIES	2,334,707	---	350	6,279	2,341,336
FUND BALANCES					
Reserved for Inventories	56,786	5,682	---	---	62,468
Reserved for Debt Service	---	---	252,008	---	252,008
Unreserved, Designated	555,895	---	---	---	555,895
Unreserved and Undesignated	3,457,055	---	---	---	3,457,055
Unreserved and Undesignated, Food Services	---	101,903	---	---	101,903
Unreserved and Undesignated, Athletics	---	---	---	2,500	2,500
TOTAL FUND BALANCES	4,069,736	107,585	252,008	2,500	4,431,829
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,404,443	\$ 107,585	\$ 252,358	\$ 8,779	\$ 6,773,165
TOTAL GOVERNMENTAL FUND BALANCES					\$ 4,431,829
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:					
Cost of the Capital Assets is	\$ 25,389,538				
Accumulated Depreciation is	<u>-8,095,270</u>				
	<u>17,294,268</u>				
Long-term Liabilities are not due and payable in the current period and are not reported in the fund					
Bonds Payable	-12,714,125				
Compensated absences	-1,055,519				
Accrued interest is not included as a liability in governmental funds	<u>-107,948</u>				
NET ASSETS OF GOVERNMENTAL ACTIVITIES					\$ 7,848,505

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	General	Food Service	Debt Service	Other Non-major Governmental Funds	Totals
REVENUE					
Local Sources	\$ 2,199,656	\$ 177,627	\$ 1,678,285	\$ 36,927	\$ 4,092,495
State Sources	11,895,835	31,517	---	---	11,927,352
Federal Sources	1,910,256	338,251	---	---	2,248,507
Miscellaneous	---	---	---	---	---
TOTAL REVENUE	16,005,747	547,395	1,678,285	36,927	18,268,354
EXPENDITURES					
Current					
Instruction	10,850,252	---	---	367,954	11,218,206
Supporting Services	5,749,346	520,617	---	---	6,269,963
Community Services	560,078	---	---	---	560,078
Debt Service	---	---	1,720,160	---	1,720,160
Capital Outlay	40,173	27,198	---	---	67,371
TOTAL EXPENDITURES	17,199,849	547,815	1,720,160	367,954	19,835,778
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-1,194,102	-420	-41,875	-331,027	-1,567,424
OTHER FINANCING SOURCES <USES>					
Operating Transfers In	---	---	---	331,027	331,027
Operating Transfers Out	-331,027	---	---	---	-331,027
TOTAL OTHER FINANCING SOURCES <USES>	-331,027	---	---	331,027	---
NET CHANGE IN FUND BALANCES	-1,525,129	-420	-41,875	---	-1,567,424
FUND BALANCES - BEGINNING OF YEAR	5,594,865	108,005	293,883	2,500	5,999,253
FUND BALANCES - END OF YEAR	\$ 4,069,736	\$ 107,585	\$ 252,008	\$ 2,500	\$ 4,431,829

See Accompanying Notes to Financial Statements.

SHELBY PUBLIC SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ -1,567,425**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense

-599,962

Capital Outlay

649,351

49,389

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

14,520

- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

1,153,800

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ -349,716

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2005

	<u>Agency Fund- Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 128,221
Accounts Receivable	<u>---</u>
TOTAL ASSETS	<u>\$ 128,221</u>
 LIABILITIES	
Due to Other Funds	\$ 889
Due to Others	4,906
Due to Student Groups	<u>122,426</u>
TOTAL LIABILITIES	<u>\$ 128,221</u>

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Shelby Public School District is located in Oceana County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

Debt Service Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 1992, 1998, 2003 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Oceana County. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in four financial institutions. At June 30, 2005 the book value of the School District's deposits was \$ 4,283,691 and the bank balance was \$5,046,928. Of the bank balance, \$255,688 was covered by federal depository insurance and \$4,791,240 was uninsured and uncollateralized.

CASH EQUIVALENTS: There is \$1,041,896 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

<u>Carrying Value</u>	<u>Market Value</u>
<u>\$ 1,041,896</u>	<u>\$ 1,041,896</u>

Total Cash:

Petty Cash	\$ 1,440
Deposits in Financial Institutions	3,240,355
Deposits in MLAF Account	<u>1,041,896</u>
	<u><u>\$ 4,283,691</u></u>

NOTE 3 - INVENTORY

The \$56,786 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2005.

There is \$5,682 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2005, was \$62,468.

SHELBY PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2005, is comprised of the following:

General Fund

State of Michigan	- State Aid	\$ 2,158,309
	- Title I	7,119
	- Title II-A	2,819
	- Summer Migrant Education	13,355
	- Comprehensive School Reform	13,975
	- State Day Care	35
	- CACFP	431
Muskegon County	- Head Start	71,420
	- Work First Grant	197,077
	- Labor Exchange	22,820
	- WIA	8,947
County of Muskegon		1,260
United States Department of Agriculture	- Summer Food	6,440
Michigan Community Service Comm.		4,955
Village of Shelby	- Crossing Guards	2,656
County of Mason	- Link Michigan Refund	832
Michigan 4-C Association	- Schooling Reimbursement	400
Council of MI Foundation		47
<u>Total Due From Other Governmental Units</u>		<u>\$ 2,512,897</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2005, consisted of the following:

Due To:

General	\$ 889
Food Service	2,812
Athletic	6,279
	<u>\$ 9,980</u>

Due From:

Agency Fund	\$ 889
General	2,812
General	6,279
	<u>\$ 9,980</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Assets not being depreciated:				
Land	\$ 231,991	\$ ---	\$ ---	\$ 231,991
Capital assets being depreciated:				
Building and building improvements	20,523,857	757,436	---	21,281,293
Buses and other vehicles	1,370,366	---	---	1,370,366
Furniture and equipment	2,572,042	95,313	161,467	2,505,888
Subtotal	24,466,265	852,749	161,467	25,157,547
Accumulated depreciation:				
Building and building improvements	4,721,314	417,820	-80,449	5,219,583
Buses and other vehicles	1,011,103	76,050	---	1,087,153
Furniture and equipment	1,776,334	106,092	93,892	1,788,534
Subtotal	7,508,751	599,962	13,443	8,095,270
Net capital assets being depreciated	16,957,514	252,787	148,024	17,062,277
Net capital assets	\$ 17,189,505	\$ 252,787	\$ 148,024	\$ 17,294,268

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2005, of \$958,754 represents the unpaid portion of teacher contracts for the 2004-05 school year. On these salaries there are also fringe benefits payable at year-end totaling \$805,560.

NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2005, long-term debt changed as follows:

SHELBY PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT - CONTINUED

Bond Issue	Balance 6/30/04	Additional Debt	2004-05 Payments	Balance 6/30/05
1992 Debt	\$ 185,000	\$ ---	\$ 30,000	\$ 155,000
1998 Refunding Debt	9,515,000	---	55,000	9,460,000
2003 Refunding Debt	2,885,000	---	575,000	2,310,000
Durant Debt	98,605	---	---	98,605
School Bond Loan	1,184,320	---	493,800	690,520
	13,867,925	---	1,153,800	12,714,125
Compensated Absences	1,000,144	55,375	---	1,055,519
	<u>\$ 14,868,069</u>	<u>\$ 55,375</u>	<u>\$ 1,153,800</u>	<u>\$ 13,769,644</u>

Amounts needed over the next five years for debt principal payments are as follows:

	School Bond Loan	1992 Debt	1998 Refunding Debt	Durant Debt	2003 Refunding Debt	Total
2005-06	\$ ---	\$ 35,000	\$ 55,000	\$ 7,471	\$ 585,000	\$ 682,471
2006-07	---	35,000	55,000	35,701	595,000	720,701
2007-08	---	40,000	60,000	8,199	605,000	713,199
2008-09	---	45,000	145,000	8,590	525,000	723,590
2009-10	---	---	710,000	8,998	---	718,998
	---	155,000	1,025,000	68,959	2,310,000	3,558,959
2010 - Maturity	690,520	---	8,435,000	29,646	---	9,155,166
	<u>\$ 690,520</u>	<u>\$ 155,000</u>	<u>\$ 9,460,000</u>	<u>\$ 98,605</u>	<u>\$ 2,310,000</u>	<u>\$ 12,714,125</u>

Shelby Refunding Bond Issue - 2003: The District issued \$2,945,000 of refunding bonds dated August 12, 2003. Principal payments are due May 1, beginning in 2004 through 2009. Interest rates range from 2.0% to 2.9%. The balance at June 30, 2005 was \$2,310,000.

Shelby Refunding Bond Issue - 1998: The District issued \$9,845,000 of refunding bonds dated December 22, 1998. Principal payments are due May 1, beginning in 1999 through 2021. Interest rates range from 3.1% to 4.8%. The balance at June 30, 2005, was \$9,460,000. See Note 12 for additional information on this transaction.

Durant Bond Issue: The District issued \$154,344 of bonds dated November 24, 1998. The principal and interest on the bond issue is financed from state aid revenue. The bonds bear interest at 4.761% and are due annually through 2013. The balance at June 30, 2005, was \$98,605.

School Bond Loan: The District has borrowed from the State of Michigan School Bond Loan program. Interest accrues at a variable rate currently 3.125%. This is being repaid when tax collections for debt retirement exceed principal and interest payments. The balance at June 30, 2005, was \$690,520.

Ferry Bond Issue - 1992: The District acquired the existing Ferry Bond Issue dated June 1, 1992, in the amount of \$345,000. Principal payments are due May 1 beginning in 1996 through 2009. Interest rates range from 6.1% to 7.75%. The balance at June 30, 2005, was \$155,000.

Compensated Absences: Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused sick leave amounts. Once a teacher, secretary, or administrator reaches the twelfth step on the salary schedule, the accumulated compensable leave to the employee's credit is a cash surrender value of fifty percent. Custodians must attain fifteen years of service to be vested. Upon retirement, the accumulated days (maximum 115 days) are payable at 50% of rate of pay at the time of retirement. Therefore, a liability of \$1,055,519 exists at June 30, 2005.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a multiple-employer public employee retirement system. MPERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2005, the rate was 14.87%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990, or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - DEFINED BENEFIT PENSION PLAN - CONTINUED

60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2005, the School District contributed \$1,472,588 to the Retirement System, which is 14.87% of current fiscal year covered compensation of \$10,166,741. The rate for the current contract year is 14.87%, which the School District paid on all covered compensation. Employees contributed an additional \$280,904 or 3.87% of eligible wages of \$7,258,501. Total wages of the district totaled \$10,412,708.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2003, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$44.8 billion. The total pension benefit obligation has increased by \$2.9 billion from September 30, 2002 to September 30, 2003.

The System's net assets available for benefits on that date (valued at market) were \$38.7 billion leaving an unfunded actuarial accrued liability of \$6.1 billion. Ten-year historical trend information is presented in the System's September 30, 2004, comprehensive annual financial report.

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2005, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2005, are as follows:

- A) \$56,786 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$61,321 of fund balance in the General Fund has been designated for future technology purchases.
- C) \$295,656 of fund balance in the General Fund has been designated for reduced class size.
- D) \$5,682 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- E) \$198,918 of fund balance in the general fund has been designated for future facility improvements including the Middle School roof.
- F) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2005, Unreserved General Fund Balance of \$ 3,457,055 compares to June 30, 2004, Unreserved General Fund Balance of \$4,103,136.

NOTE 12 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On December 22, 1998, Shelby Public School issued \$9,845,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.1% to 4.8% to advance refund \$8,960,000 of outstanding 1995 Building and Site Bonds with an average interest rate of 5.3%. The net proceeds of \$9,600,500 (after payment of \$244,500 in issuance costs) were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1995 bonds. As a result, the remaining balance on the 1995 bonds are considered to be defeased. The liability for those bonds has been removed from the general long-term debt account group.

Shelby Public Schools advance refunded the 1995 bonds to reduce its total debt service payments over the next twenty-two years by \$376,125. However, as a result of the transaction, Shelby Public Schools acquired an additional debt of \$855,000.

On August 12, 2003, Shelby Public School issued \$2,945,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 2.0% to 2.9% to advance refund \$2,790,000 of outstanding 1995 Building Site Bonds with an average interest rate of 5.1%. The net proceeds of \$2,945,000 (after payment of \$41,285 in issuance costs) plus an additional \$50,000 of Shelby Public School Debt Funds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 bonds. As a result, the 1995 bonds are considered to be defeased. The liability for those bonds has been removed from the general long-term debt account group.

Shelby Public Schools advance refunded the 1995 bonds to reduce its total debt service payments over the next ten years by \$110,000. However, as a result of the transaction, Shelby Public Schools acquired an additional debt of \$155,000.

SHELBY PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - LEASES

The School District leases Rothbury School from the Montague Area Public Schools. The lease term was from August 5, 2002 through June 15, 2005. Rent was \$2,500 monthly plus utilities from August 5 through June 15. Total lease expense for the year ended June 30, 2005 was \$25,000.

The School District leases space for its adult education programs. Rent is due quarterly. The lease commenced September 1, 2004, and is a month-to-month lease. Rent is \$1,066.68 per quarter. Total lease expense for the year ended June 30, 2005, was \$3,200. Effective July 1, 2005, this lease has been altered to a month-to-month lease for only one suite at \$400 per month.

The School District leased space for its employment and training programs. Rent was due quarterly. The lease commenced February 1, 2004 and continued for one year. Rent was \$2,021.25 per quarter. Total lease expense for the year ended June 30, 2005 was \$4,042.50. Effective February 1, 2005, a new lease was entered into. Monthly rent of \$1,250 is due, and the lease continues for 10 years. Total lease expense for the year ending June 30, 2005, was \$6,250.00. The base monthly rent increases annually by \$37.50.

Future minimum lease obligations are as follows:

Year ending June 30, 2006	\$ 19,800
2007	15,000
2008	15,000
2009	15,000
2010	15,000
2011 and thereafter	68,750

NOTE 14 - DEFERRED REVENUE

At June 30, 2005, various monies had been received for specific programs, but the programs had not yet incurred the expenses related to this revenue. These revenues are then recorded as deferred. At June 30, 2005, deferred revenue consisted of the following:

Adult Education	\$ 69,587
Golden Apple Award	10,863
At Risk	97,760
Other	<u>20,576</u>
	<u>\$ 198,786</u>

NOTE 15 - RELATED PARTY ACTIVITY

The School District occasionally purchases catering services from a company (McGovern Catering) owned by a School Board member (Michael McGovern). During the year ended June 30, 2005, the total amount paid by the District to this company was \$1,834. Amounts paid to McGovern Catering were fair and reasonable for the services provided.

REQUIRED SUPPLEMENTAL INFORMATION

SHELBY PUBLIC SCHOOLS

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Local Sources	\$ 2,002,387	\$ 2,227,922	\$ 2,199,656	\$ -28,266
State Sources	12,169,714	12,011,639	11,895,835	-115,804
Federal Sources	1,744,093	2,007,922	1,910,256	-97,666
Miscellaneous	---	---	---	---
TOTAL REVENUES	15,916,194	16,247,483	16,005,747	-241,736
EXPENDITURES				
Current				
Instruction				
Basic Programs	7,888,186	8,004,353	7,907,418	96,935
Added Needs	2,391,507	2,508,838	2,322,923	185,915
Adult/Continuing Education	651,015	648,938	619,911	29,027
Supporting Services				
Pupil	496,999	545,884	505,221	40,663
Instructional Staff	640,768	805,328	727,239	78,089
Administration	1,371,187	1,407,985	1,367,151	40,834
Business Support	299,103	331,813	284,576	47,237
Operations	1,929,739	2,224,579	2,207,497	17,082
Transportation	640,566	686,053	657,662	28,391
Community Services	603,514	639,838	560,078	79,760
Debt Service	---	---	---	---
Capital Outlay	---	40,957	40,173	784
Other Uses - Operating Transfers	368,222	348,355	331,027	17,328
TOTAL EXPENDITURES	17,280,806	18,192,921	17,530,876	662,045
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	-1,364,612	-1,945,438	-1,525,129	420,309
BUDGETARY FUND BALANCE - JULY 1, 2004	5,594,865	5,594,865	5,594,865	---
BUDGETARY FUND BALANCE - JUNE 30, 2005	\$ 4,230,253	\$ 3,649,427	\$ 4,069,736	\$ 420,309

SHELBY PUBLIC SCHOOLS

BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Local Sources	\$ 1,679,050	\$ 1,678,954	\$ 1,678,285	\$ -669
State Sources	---	---	---	---
Federal Sources	---	---	---	---
Miscellaneous	---	---	---	---
TOTAL REVENUES	1,679,050	1,678,954	1,678,285	-669
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Support	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	1,680,063	1,828,674	1,720,160	108,514
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	1,680,063	1,828,674	1,720,160	108,514
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	-1,013	-149,720	-41,875	107,845
BUDGETARY FUND BALANCE - JULY 1, 2004	293,883	293,883	293,883	---
BUDGETARY FUND BALANCE - JUNE 30, 2005	\$ 292,870	\$ 144,163	\$ 252,008	\$ 107,845

SHELBY PUBLIC SCHOOLS

BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Local Sources	\$ 180,400	\$ 180,540	\$ 177,627	\$ -2,913
State Sources	20,000	31,518	31,517	-1
Federal Sources	320,000	338,630	338,251	-379
Miscellaneous	---	---	---	---
TOTAL REVENUES	520,400	550,688	547,395	-3,293
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	516,391	525,091	520,617	4,474
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Support	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	4,000	27,300	27,198	102
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	520,391	552,391	547,815	4,576
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	9	-1,703	-420	1,283
BUDGETARY FUND BALANCE - JULY 1, 2004	108,005	108,005	108,005	---
BUDGETARY FUND BALANCE - JUNE 30, 2005	\$ 108,014	\$ 106,302	\$ 107,585	\$ 1,283

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

SHELBY PUBLIC SCHOOLS

GENERAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 1,846,149	\$ 1,838,362	\$ -7,787
Interest and Penalties - Delinquent Taxes	300	271	-29
Tuition, Patrons	1,150	1,141	-9
Sale of School Property	9,807	9,507	-300
Interest Earned	91,890	91,855	-35
Rental of School Facilities	6,555	6,553	-2
Transportation	10,000	8,624	-1,376
Day Care Fees	40,774	33,436	-7,338
Community Education Fees	19,300	20,153	853
Other	77,722	69,531	-8,191
Universal Service Funds	4,275	4,273	-2
Medicaid Reimbursement	120,000	115,950	-4,050
TOTAL REVENUE FROM LOCAL SOURCES	2,227,922	2,199,656	-28,266
STATE SOURCES			
Non Plaintiff Durant Settlement	15,435	15,434	-1
State Aid	10,511,426	10,510,585	-841
Driver Education	3,000	2,882	-118
Day Care	11,050	11,736	686
PAL Grant	7,500	7,361	-139
Special Education	338,717	338,639	-78
Adult Education	45,541	45,874	333
At Risk	621,134	522,908	-98,226
Vocational Education	39,839	39,838	-1
Michigan School Readiness	231,000	214,093	-16,907
Advanced/Accelerated Learners	252	252	---
Renaissance Zone	167,563	167,563	---
Commercial Forest	4,785	4,273	-512
Bilingual Education	14,397	14,397	---
TOTAL REVENUE FROM STATE SOURCES	\$ 12,011,639	\$ 11,895,835	\$ -115,804

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
Improving Teacher Quality	\$ 104,335	\$ 103,610	\$ -725
Migrant Program	94,661	94,661	---
Summer Migrant Program	64,718	64,539	-179
Summer School Food Program	27,284	27,833	549
Title I	395,082	392,343	-2,739
Drug Free	10,203	10,203	---
Title III	28,961	28,961	---
Adult Basic Education	21,791	21,780	-11
Title V	10,581	10,581	---
IDEA	38,480	38,480	---
Child Care Food	34,091	34,027	-64
Work First	479,327	479,240	-87
Workforce Investment Act	83,272	83,785	513
English Literacy	10,000	10,000	---
Adult Ed	7,000	7,000	---
Labor Exchange	77,500	77,777	277
4C Schooling	3,454	1,778	-1,676
Service Learning Grant	15,000	14,396	-604
Comprehensive School Reform	73,935	84,395	10,460
Technology Literacy	9,076	9,076	---
WIA Classroom Training	---	3,758	3,758
Learning to Give	6,000	2,671	-3,329
Head Start	413,171	309,362	-103,809
TOTAL REVENUE FROM FEDERAL SOURCES	2,007,922	1,910,256	-97,666
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 16,247,483	\$ 16,005,747	\$ -241,736
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary Schools	\$ 3,462,730	\$ 3,429,442	\$ 33,288
Middle School	1,743,153	1,735,186	7,967
High Schools	2,625,403	2,570,148	55,255
Preschool	161,221	160,796	425
Summer School	11,846	11,846	---
TOTAL BASIC PROGRAMS	\$ 8,004,353	\$ 7,907,418	\$ 96,935

SHELBY PUBLIC SCHOOLS

GENERAL FUND STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Instruction - Continued			
ADDED NEEDS			
Special Education	\$ 1,114,164	\$ 1,086,460	\$ 27,704
Compensatory Education	1,045,799	919,519	126,280
Vocational Education	348,875	316,944	31,931
TOTAL ADDED NEEDS	2,508,838	2,322,923	185,915
ADULT/CONTINUING EDUCATION			
Adult Education	253,345	229,501	23,844
Work First Grant	289,321	287,611	1,710
Workforce Investment Act	66,272	59,872	6,400
Labor Exchange	40,000	42,927	-2,927
TOTAL ADULT/CONTINUING EDUCATION	648,938	619,911	29,027
Total Instruction	11,162,129	10,850,252	311,877
Supportive Services			
PUPIL			
Guidance	402,123	398,888	3,235
Drug-Free	8,591	8,590	1
Social Work	78,409	49,656	28,753
Other	56,761	48,087	8,674
TOTAL PUPIL	545,884	505,221	40,663
INSTRUCTIONAL STAFF			
Improvement of Instruction	222,557	186,987	35,570
Educational Media Services	157,056	152,811	4,245
Computer Assisted Instruction	193,936	183,119	10,817
Supervision	228,675	202,544	26,131
Other	3,104	1,778	1,326
TOTAL INSTRUCTIONAL STAFF	805,328	727,239	78,089
ADMINISTRATION			
Board of Education	29,600	27,669	1,931
Executive Administration	226,527	225,956	571
Principals Offices	1,147,158	1,110,418	36,740
Other	4,700	3,108	1,592
TOTAL ADMINISTRATION	\$ 1,407,985	\$ 1,367,151	\$ 40,834

	Budget	Actual	Favorable <Unfavorable>
BUSINESS SERVICES			
Fiscal Services	\$ 195,062	\$ 191,864	\$ 3,198
Other Business Services	50,438	23,108	27,330
Operation and Maintenance	2,224,579	2,207,497	17,082
Pupil Transportation	686,053	657,662	28,391
Information Management Services	83,373	68,460	14,913
Pupil Accounting	2,940	1,144	1,796
TOTAL BUSINESS SERVICES	3,242,445	3,149,735	92,710
Total Supportive Services	6,001,642	5,749,346	252,296
Community Services			
Custody and Care of Children	360,640	303,697	56,943
Welfare Activities	170,625	157,187	13,438
Other	108,573	99,194	9,379
Total Community Services	639,838	560,078	79,760
Capital Outlay			
Land Purchase	2,939	2,939	---
Other	38,018	37,234	784
Total Capital Outlay	40,957	40,173	784
TOTAL EXPENDITURES	\$ 17,844,566	\$ 17,199,849	\$ 644,717
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-1,597,083	-1,194,102	402,981
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	-348,355	-331,027	17,328
TOTAL OTHER FINANCING SOURCES<USES>	-348,355	-331,027	17,328
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -1,945,438	-1,525,129	\$ 420,309
FUND BALANCE - JULY 1, 2004		5,594,865	
FUND BALANCE - JUNE 30, 2005		\$ 4,069,736	

SPECIAL REVENUE FUNDS

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2005

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash - In Bank	\$ 94,744	\$ 2,300	\$ 97,044
- On Hand	200	200	400
Accounts Receivable	4,147	---	4,147
Due From Other Governmental Units	---	---	---
Due From Other Funds	2,812	6,279	9,091
Prepaid Expenses	---	---	---
Inventory	5,682	---	5,682
TOTAL ASSETS	\$ 107,585	\$ 8,779	\$ 116,364
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ ---	\$ ---	\$ ---
Accounts Payable	---	---	---
Accrued Salaries	---	3,452	3,452
Accrued Expenses	---	2,827	2,827
TOTAL LIABILITIES	---	6,279	6,279
FUND EQUITY			
Fund Balance - Reserved for Inventory	5,682	---	5,682
Fund Balance - Unreserved	101,903	2,500	104,403
TOTAL FUND EQUITY	107,585	2,500	110,085
TOTAL LIABILITIES AND FUND EQUITY	\$ 107,585	\$ 8,779	\$ 116,364

SHELBY PUBLIC SCHOOLS

SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 128,500	\$ 127,316	\$ -1,184
- Adults	10,500	10,490	-10
- Ala Carte	31,000	30,551	-449
Breakfast	7,000	5,766	-1,234
State Aid	31,518	31,517	-1
Federal Aid	316,630	316,431	-199
Federal USDA Commodities in Kind	22,000	21,820	-180
Other Income	2,500	2,466	-34
Interest Income	1,040	1,038	-2
Athletic Activities			
Admission to Games	---	---	---
TOTAL REVENUE	550,688	547,395	-3,293
EXPENDITURES			
Salaries	187,150	186,022	1,128
Fringe Benefits	65,035	63,361	1,674
Professional Services	2,600	2,573	27
Food and Supplies	250,200	249,131	1,069
Travel and Conferences	2,000	1,946	54
Transportation	1,106	1,091	15
Miscellaneous	7,500	7,156	344
Repairs	2,700	2,961	-261
Utilities and Waste	6,800	6,376	424
Capital Outlay	27,300	27,198	102
TOTAL EXPENDITURES	\$ 552,391	\$ 547,815	\$ 4,576

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 128,500	\$ 127,316	\$ -1,184
---	---	---	10,500	10,490	-10
---	---	---	31,000	30,551	-449
---	---	---	7,000	5,766	-1,234
---	---	---	31,518	31,517	-1
---	---	---	316,630	316,431	-199
---	---	---	22,000	21,820	-180
---	---	---	2,500	2,466	-34
---	---	---	1,040	1,038	-2
36,931	36,928	-3	36,931	36,927	-3
36,931	36,928	-3	587,619	584,323	-3,296
247,634	236,873	10,761	434,784	422,895	11,889
72,669	67,209	5,460	137,704	130,570	7,134
25,535	25,708	-173	28,135	28,281	-146
21,934	8,254	13,680	272,134	257,385	14,749
4,000	3,710	290	6,000	5,656	344
---	---	---	1,106	1,091	15
10,083	22,746	-12,663	17,583	29,902	-12,319
3,500	3,455	45	6,200	6,416	-216
---	---	---	6,800	6,376	424
---	---	---	27,300	27,198	102
\$ 385,355	\$ 367,955	\$ 17,400	\$ 937,746	\$ 915,770	\$ 21,976

SHELBY PUBLIC SCHOOLS

SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Food Service</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable <Unfavorable></u>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	\$ -1,703	\$ -420	\$ 1,283
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ -1,703</u>	-420	<u>\$ 1,283</u>
FUND BALANCE - BEGINNING OF YEAR		<u>108,005</u>	
FUND BALANCE - END OF YEAR		<u>\$ 107,585</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -348,424	\$ -331,027	\$ 17,397	\$ -350,127	\$ -331,447	\$ 18,680
348,355	331,027	-17,328	348,355	331,027	-17,328
---	---	---	---	---	---
348,355	331,027	-17,328	348,355	331,027	-17,328
<u>\$ -69</u>	---	<u>\$ 69</u>	<u>\$ -1,772</u>	-420	<u>\$ 1,352</u>
	<u>2,500</u>			<u>110,505</u>	
	<u>\$ 2,500</u>			<u>\$ 110,085</u>	

DEBT RETIREMENT FUNDS

DEBT RETIREMENT FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2005

	1992 Debt	1994 Debt	1995 Debt	1998 Debt	2003 Debt	Durant	Totals
ASSETS							
Cash in Bank	\$ 12,539	\$ ---	\$ ---	\$ 113,359	\$ 126,271	\$ ---	\$ 252,169
Due from other Funds	---	---	---	---	---	---	---
Accounts Receivable	9	---	---	85	95	---	189
TOTAL ASSETS	\$ 12,548	\$ ---	\$ ---	\$ 113,444	\$ 126,366	\$ ---	\$ 252,358
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Accounts Payable	\$ 350	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 350
Due to Other Funds	---	---	---	---	---	---	---
TOTAL LIABILITIES	350	---	---	---	---	---	350
FUND EQUITY							
Fund Balance	12,198	---	---	113,444	126,366	---	252,008
TOTAL LIABILITIES AND FUND EQUITY	\$ 12,548	\$ ---	\$ ---	\$ 113,444	\$ 126,366	\$ ---	\$ 252,358

SHELBY PUBLIC SCHOOLS

DEBT RETIREMENT FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	1992		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 43,797	\$ 43,700	\$ -97
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	5	3	-2
Earned Interest	475	470	-5
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	44,277	44,173	-104
EXPENDITURES			
Principal on Bonds	30,000	30,000	---
Principal on School Bond Loan Fund	---	---	---
Interest on Bonds	14,074	12,365	1,709
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	750	369	381
TOTAL EXPENDITURES	44,824	42,734	2,090
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-547	1,439	1,986
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -547	1,439	\$ 1,986
FUND BALANCE - BEGINNING OF YEAR		10,759	
FUND BALANCE - END OF YEAR		\$ 12,198	

SHELBY PUBLIC SCHOOLS

DEBT RETIREMENT FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

REVENUE	1998		Favorable <Unfavorable>
	Budget	Actual	
Current Taxes	\$ 690,326	\$ 690,228	\$ -98
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	155	46	-109
Earned Interest	4,950	4,939	-11
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	695,431	695,213	-218
EXPENDITURES			
Principal on Bonds	55,000	55,000	---
Principal on School Bond Loan Fund	288,606	288,606	---
Interest on Bonds	505,220	434,367	70,853
Interest on School Bond Loan Fund	50,200	50,200	---
Agent Fees and Other	750	595	155
TOTAL EXPENDITURES	899,776	828,768	71,008
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-204,345	-133,555	70,790
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	145,645	145,645
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	145,645	145,645
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -204,345	12,090	\$ 216,435
FUND BALANCE - BEGINNING OF YEAR		101,354	
FUND BALANCE - END OF YEAR		\$ 113,444	

2003			Totals		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 934,181	\$ 934,039	\$ -142	\$ 1,668,304	\$ 1,667,967	\$ -337
---	---	---	---	---	---
65	60	-5	225	109	-116
5,000	4,800	-200	10,425	10,209	-216
---	---	---	---	---	---
---	---	---	---	---	---
939,246	938,899	-347	1,678,954	1,678,285	-669
575,000	575,000	---	660,000	660,000	---
205,194	205,194	---	493,800	493,800	---
77,077	67,840	9,237	596,371	514,572	81,799
26,153	---	26,153	76,353	50,200	26,153
650	624	26	2,150	1,588	562
884,074	848,658	35,416	1,828,674	1,720,160	108,514
55,172	90,241	35,069	-149,720	-41,875	107,845
---	---	---	---	---	---
---	---	---	---	145,645	145,645
---	---	---	---	-145,645	-145,645
---	---	---	---	---	---
<u>\$ 55,172</u>	90,241	<u>\$ 35,069</u>	<u>\$ -149,720</u>	-41,875	<u>\$ 107,845</u>
	<u>36,125</u>			<u>293,883</u>	
	<u>\$ 126,366</u>			<u>\$ 252,008</u>	

AGENCY FUNDS

SHELBY PUBLIC SCHOOLS

AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2005

	Balance 6/30/04	Receipts	Disbursements	Balance 6/30/05
ASSETS				
Cash	\$ 136,077	\$ 386,469	\$ 394,325	\$ 128,221
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 136,077	\$ 386,469	\$ 394,325	\$ 128,221
LIABILITIES				
DUE TO OTHER FUNDS	\$ ---	\$ 889	\$ ---	\$ 889
DUE TO OTHERS				
School Administration Central Office Board Internal :	3,946	18,402	19,087	3,261
New Era Internal Fund	1,806	13,284	13,445	1,645
TOTAL DUE TO OTHERS	5,752	31,686	32,532	4,906
DUE TO STUDENT GROUPS				
High School Internal	74,789	225,705	233,334	67,160
Middle Internal	25,468	79,278	81,848	22,898
Ferry Elementary Internal	5,501	4,741	3,568	6,674
Thomas Read Elem. Internal	21,390	39,670	37,972	23,088
Benona Elementary Internal	3,177	4,500	5,071	2,606
TOTAL STUDENT GROUPS	130,325	353,894	361,793	122,426
TOTAL LIABILITIES	\$ 136,077	\$ 386,469	\$ 394,325	\$ 128,221

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
HIGH SCHOOL INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/04			Student Groups 6/30/05
Art Club	\$ 2,468	\$ 96	\$ 2,468	\$ 96
Special Education	47	---	47	---
Band	233	4,682	4,592	323
Calculators	508	132	526	114
Equestrian Team	718	---	217	501
Faculty Lounge Pop	211	381	149	443
D.E. Club	7,096	44,013	47,991	3,118
Drama Class	608	344	637	315
French Club	6	---	6	---
Class of 2008	---	3,653	2,778	875
Class of 2007	3,575	4,162	3,572	4,165
Class of 2006	704	3,655	2,720	1,639
Class of 2005	2,980	20	1,822	1,178
Class of 2004	2,474	---	2,474	---
Learn and Serve	---	4,658	4,561	97
Post - Prom	496	3,045	3,420	121
Student Courtyard	4	---	4	---
General Administration	6,019	9,979	13,068	2,930
Honor Society	529	358	613	274
Ind. Education	257	734	671	320
Library	987	2,667	2,807	847
Masque and Bauble	7,189	10,131	4,586	12,734
Music Dept. Joint Acct.	---	2,191	1,563	628
Technology	589	1	---	590
S.A.D.D.	476	1,144	1,503	117
Science Olympiad	9	544	542	11
Ethnic Club	21	863	879	5
Student Council	3,825	3,107	2,366	4,566
S.A.F.E.	433	---	---	433
Tiger Bazaar	959	1,092	861	1,190
Vocal Music	3,258	7,548	8,839	1,967
Pep Club	34	---	---	34
Training Club	160	---	---	160
Yearbook Class	12,044	16,727	15,476	13,295
General Admin. - Athletic	7,788	85,828	88,053	5,563
General Admin. - Pop	7,732	12,999	13,171	7,560
Due to Others (Interest)	352	951	352	951
TOTALS	\$ 74,789	\$ 225,705	\$ 233,334	\$ 67,160

SHELBY PUBLIC SCHOOLS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES MIDDLE SCHOOL INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/04			Student Groups 6/30/05
Athletic Department	\$ 1,145	\$ 583	\$ 859	\$ 869
Band Resale	-1,285	4,514	3,229	---
Computer Supplies	201	397	13	585
Cheerleaders	733	6,054	5,548	1,239
Claw Club	3,919	6,358	10,204	73
Interest	-2,024	4,658	5,229	-2,595
Eighth Grade	2,093	9,187	9,913	1,367
Life Management	350	2,470	2,376	444
Mitmeer's Application Class	450	252	111	591
Library Fund	1,717	1,955	2,367	1,305
Petty Cash	985	4,398	5,381	2
Pop Machine	-1,333	4,043	2,730	-20
Seventh Grade	5,959	19,501	17,855	7,605
Sixth Grade	8,315	9,563	9,484	8,394
Ski Club	2,854	399	323	2,930
Physical Education	375	247	513	109
Water Machine	1,014	936	1,950	---
World's Finest Candy	---	3,763	3,763	---
TOTALS	\$ 25,468	\$ 79,278	\$ 81,848	\$ 22,898

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
BENONA ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/04			Student Groups 6/30/05
5th Grade	\$ 408	\$ 34	\$ 258	\$ 184
4th Grade	618	1,601	1,861	358
3rd Grade	161	---	---	161
2nd Grade	286	126	54	358
1st Grade	8	---	---	8
Kindergarten	8	---	---	8
Computer Lab	84	---	---	84
Library	193	98	---	291
Miscellaneous	1,411	2,641	2,898	1,154
TOTALS	\$ 3,177	\$ 4,500	\$ 5,071	\$ 2,606

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FERRY ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/04			Student Groups 6/30/05
5th Grade	\$ 63	\$ 59	\$ 45	\$ 77
4th Grade	147	545	380	312
3rd Grade	141	140	134	147
2nd Grade	231	259	206	284
1st Grade	442	224	326	340
Kindergarten	138	187	265	60
Library	---	18	18	---
Miscellaneous	1,948	1,169	1,025	2,092
Scholarship	2,391	2,140	1,169	3,362
TOTALS	\$ 5,501	\$ 4,741	\$ 3,568	\$ 6,674

SHELBY PUBLIC SCHOOLS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES NEW ERA ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to Others	Receipts	Disbursements	Due to Others
	6/30/04			6/30/05
Fund Raisers	\$ 6,443	\$ 8,647	\$ 5,790	\$ 9,300
Miscellaneous	-3,342	3,342	3,744	-3,744
Teaching Supplies	-1,295	1,295	3,911	-3,911
TOTALS	\$ 1,806	\$ 13,284	\$ 13,445	\$ 1,645

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES THOMAS READ ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to Student Groups	Receipts	Disbursements	Due to Student Groups
	6/30/04			6/30/05
Candy Sales	\$ 9,503	\$ 4,691	\$ 2,334	\$ 11,860
Categorical Class	149	447	221	375
Critter Club	10	250	94	166
Fund Raiser	210	1,155	1,194	171
ECC	205	230	407	28
Interest	2,483	280	29	2,734
Library	3,452	13,033	15,064	1,421
Miscellaneous	3,034	10,319	10,142	3,211
Professional Development	-244	374	177	-47
Relay for Life	---	2,743	2,743	---
PTO Projects	598	1,700	1,800	498
Safety Patrol	9	100	100	9
Sandy-Computer	717	449	404	762
Staff Fund	148	1,760	1,312	596
Student Council	955	1,739	1,501	1,193
Volunteers	161	400	450	111
TOTALS	\$ 21,390	\$ 39,670	\$ 37,972	\$ 23,088

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CENTRAL OFFICE INTERNAL FUND**

FISCAL YEAR ENDED JUNE 30, 2005

<u>ACTIVITY</u>	Due to Others 6/30/04	Receipts	Disbursements	Due to Others 6/30/05
Relay for Life	\$ ---	\$ 4,643	\$ 4,643	\$ ---
Fair Share	---	2,879	2,879	---
Miscellaneous	1,140	390	1,270	260
Needy Children	2,806	220	25	3,001
Scholarship	---	10,270	10,270	---
TOTALS	\$ 3,946	\$ 18,402	\$ 19,087	\$ 3,261

STATEMENTS OF BONDED INDEBTEDNESS

STATEMENT OF BONDED INDEBTEDNESS

YEAR ENDED JUNE 30, 2005

Issue Dated June 1, 1992 in the amount of	\$ 345,000
Less:	
Bonds paid in prior years	160,000
Bonds due and paid May 1, 2004	<u>30,000</u>
Balance outstanding - June 30, 2005	<u>\$ 155,000</u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006	6.60%	\$ 10,415	\$ 35,000	\$ 45,415
2007	6.70%	8,105	35,000	43,105
2008	6.75%	5,760	40,000	45,760
2009	6.80%	<u>3,060</u>	<u>45,000</u>	<u>48,060</u>
		<u>\$ 27,340</u>	<u>\$ 155,000</u>	<u>\$ 182,340</u>

SHELBY PUBLIC SCHOOLS

STATEMENT OF BONDED INDEBTEDNESS

YEAR ENDED JUNE 30, 2005

Issue Dated November 28, 1998 in the amount of	\$ 154,344
Less:	
Bonds paid in prior years	55,739
Bonds due and paid May 1, 2005	<u>---</u>
Balance outstanding - June 30, 2005	<u>\$ 98,605</u>

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Prior	4.761%	\$ 12,433	\$ 27,875	\$ ---
2006	4.761%	3,368	7,471	10,839
2007	4.761%	3,012	7,825	51,145
2008	4.761%	2,639	8,199	10,838
2009	4.761%	2,249	8,590	10,839
2010	4.761%	1,840	8,998	10,838
2011	4.761%	1,412	9,427	10,839
2012	4.761%	963	9,875	10,838
2013	4.761%	493	10,345	10,838
		<u>\$ 28,409</u>	<u>\$ 98,605</u>	<u>\$ 127,014</u>

Issue Dated December 22, 1998 in the amount of **\$ 9,845,000**

Less:

Bonds paid in prior years 330,000

Bonds due and paid May 1, 2005 55,000

Balance outstanding - June 30, 2005 **\$ 9,460,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006	4.05%	\$ 432,195	\$ 55,000	\$ 487,195
2007	4.10%	429,968	55,000	484,968
2008	4.20%	427,712	60,000	487,712
2009	4.20%	425,193	145,000	570,193
2010	4.25%	419,102	710,000	1,129,102
2011	4.30%	388,928	730,000	1,118,928
2012	4.35%	357,537	750,000	1,107,537
2013	4.40%	324,913	765,000	1,089,913
2014	4.50%	291,252	785,000	1,076,252
2015	4.60%	255,928	780,000	1,035,928
2016	4.65%	220,047	775,000	995,047
2017	4.70%	184,010	790,000	974,010
2018	4.80%	146,880	785,000	931,880
2019	4.80%	109,200	775,000	884,200
2020	4.80%	72,000	750,000	822,000
2021	4.80%	36,000	750,000	786,000
		<u>\$ 4,520,865</u>	<u>\$ 9,460,000</u>	<u>\$ 13,980,865</u>

SHELBY PUBLIC SCHOOLS

STATEMENT OF BONDED INDEBTEDNESS

YEAR ENDED JUNE 30, 2005

Issue Dated August 12, 2003 in the amount of	<u>\$ 2,945,000</u>
Less:	
Bonds paid in prior years	60,000
Bonds due and paid May 1, 2005	<u>575,000</u>
Balance outstanding - June 30, 2005	<u><u>\$ 2,310,000</u></u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006	2.00%	\$ 56,340	\$ 585,000	\$ 641,340
2007	2.30%	44,640	595,000	639,640
2008	2.60%	30,955	605,000	635,955
2009	2.90%	15,225	525,000	540,225
		<u>\$ 147,160</u>	<u>\$ 2,310,000</u>	<u>\$ 2,457,160</u>

FEDERAL FINANCIAL ASSISTANCE

SHELBY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2005

Program Title		Federal CFDA No.	Contract Number	Program or Award Amount
<u>U.S. Department of Education</u>				
Pass Through State Department of Education:				
- Title I	*	84.010A	415300304	\$ 354,932
- Title I	*	84.010A	415300405	37,952
- Title I	*	84.010A	515300405	357,129
- Migrant Summer Education		84.011	518302005	54,978
- Migrant Summer Education		84.011	418302004	61,299
- Migrant Education		84.011	518900405	94,661
- Title V LEA Allocation		84.298	502500405	10,581
- Title 2D Technology Literacy		84.318	542900405	9,076
- Title IIA Improving Teacher Quality		84.367	505200405	113,848
- Title IIA Improving Teacher Quality		84.367	405200405	25,486
- Title IIA Improving Teacher Quality		84.367	405200304	88,659
- Even Start		84.213	40390D4129CES	175,500
- Comprehensive School Reform		84.332	418700405	103,009
- Comprehensive School Reform		84.332	318700304	102,784
- Title III English Language Acquisition		84.365	405800405	133
- Title III English Language Acquisition		84.365	505800405	28,828
- Adult Basic Education		84.002	411205500254	7,000
- Adult Basic Education		84.002	511205500254	10,000
Pass through Muskegon Area ISD				
- Adult Basic Education		84.002	41120 4500253	29,498
- Adult Basic Education		84.002		21,780
Pass through Oceana ISD - IDEA		84.027A		34,480
<u>Total U.S. Department of Education</u>				
<u>U.S. Department of Agriculture</u>				
U.S.D.A. Food Distribution:				
- Entitlement Commodities		10.550	Various	27,497
- Bonus Commodities		10.550	Various	3,294
Pass Through State Department Of Education:				
- National School Lunch Program	*	10.555	51950-51960, 41950-41960	254,629
- National School Lunch Breakfast	*	10.553	51970, 41970	61,802
- Child Care Food Program		10.558	51920, 52010, 41920, 42010	32,238
- Summer School Food	*	10.559	41900	29,060
- Summer School Food	*	10.559	40900	26,302

Total U.S. Department of Agriculture

*Designates a major program

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2004	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2005
\$ 354,931	\$ 34,127	\$ 34,127	\$ ---	\$ ---
---	---	37,952	37,952	---
---	---	347,272	354,391	7,119
354,931	34,127	419,351	392,343	7,119
---	---	6,445	19,800	13,355
16,560	4,496	49,235	44,739	---
---	---	94,661	94,661	---
16,560	4,496	150,341	159,200	13,355
---	---	10,581	10,581	---
---	---	9,076	9,076	---
---	---	75,305	78,124	2,819
---	---	25,486	25,486	---
88,659	23,124	23,124	---	---
88,659	23,124	123,915	103,610	2,819
175,500	17,627	17,627	---	---
---	---	65,494	79,469	13,975
97,858	9,725	14,651	4,926	---
97,858	9,725	80,145	84,395	13,975
---	---	133	133	---
---	---	28,828	28,828	---
---	---	28,961	28,961	---
---	---	7,000	7,000	---
---	---	10,000	10,000	---
29,498	27,967	27,967	---	---
---	---	21,780	21,780	---
29,498	27,967	66,747	38,780	---
---	---	38,480	38,480	---
763,006	117,066	945,224	865,426	37,268
---	---	18,526	18,526	---
---	---	3,294	3,294	---
---	---	21,820	21,820	---
---	---	254,629	254,629	---
---	---	61,802	61,802	---
---	---	316,431	316,431	---
---	-3,601	29,995	34,027	431
7,667	7,667	29,060	21,393	---
---	---	---	6,440	6,440
7,667	7,667	29,060	27,833	6,440
\$ 7,667	\$ 4,066	\$ 397,306	\$ 400,111	\$ 6,871

SHELBY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2005

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Labor</u>		
Job Training Partnership Act Passed Through Muskegon Area Intermediate School District		
WIA - Dislocated Worker	17.260	\$ 38,038
WIA - Youth	17.259	8,682
WIA - Adult	17.258	36,661
WIA - Classroom Training	17.261	4,566
 Labor Exchange	17.207	77,373
Labor Exchange	17.207	43,642
 Drug Free	17.246	10,081
Drug Free	17.246	10,203
 <u>Total U.S. Department of Labor</u>		
<u>U.S. Department of Health and Human Services</u>		
Passed through Muskegon County		
Work First *	93.558	479,240
 Passed through Michigan 4C Assoc Community Coordinated Child Care	93.575	1,778
Passed through Muskegon Area Intermediate School District		
Head Start *	93.600	297,947
Head Start *	93.600	285,787
Head Start *	93.600	424
 <u>Total U.S. Department of Health and Human Services</u>		
<u>Corporation For National and Community Service</u>		
Learning to Give	94.004	2,671
Service Learning	94.004	15,000
Service Learning	94.004	14,395
<u>Total Corporation for National and Community Service</u>		
 <u>Total Federal Financial Assistance</u>		

*Designates a major program

SHELBY PUBLIC SCHOOLS

FOOTNOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

JUNE 30, 2005

NOTE 1 - MAJOR PROGRAMS

There were four major programs Title I, Work First, Head Start, and the Child Nutrition Cluster. Total expenditures during the year ended June 30, 2005, were \$392,343, \$479,240, \$309,362, and \$344,264.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2005 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Grants from the Department of Labor are not expenditure driven. For these grants, revenue is recognized when the appropriate service has been performed. Amounts billed but not received by June 30, 2005 are recorded as accrued revenue. Expenditures are not reflected on the Schedule of Federal Awards for these grants.

NOTE 3 - ANNUAL GRANT REPORTS

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

NOTE 4 - SCHEDULE PREPARATION

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 5 - INVENTORY VALUES

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

YEAR ENDED JUNE 30, 2005

	Financial Statement	Awards Schedule
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 392,343	\$ 392,343
Migrant Education	94,661	94,661
Migrant Summer Education	64,539	64,539
Improving Teacher Quality	103,610	103,610
Title V	10,581	10,581
Title III	28,961	28,961
Adult Basic Education	21,780	21,780
English Literacy	17,000	17,000
IDEA	38,480	38,480
Comprehensive School Reform	84,395	84,395
Technology Literacy	9,076	9,076
TOTAL	<u>865,426</u>	<u>865,426</u>
DEPARTMENT OF AGRICULTURE GRANTS		
GENERAL FUND		
Child Care Food	34,027	34,027
Summer School Food	27,833	27,833
FOOD SERVICE FUND		
Commodities	21,820	21,820
Federal Aid	316,431	316,431
TOTAL	<u>400,111</u>	<u>400,111</u>
DEPARTMENT OF LABOR GRANTS		
GENERAL FUND		
Workforce Investment Act	87,947	87,947
Drug Free	10,203	10,203
Labor Exchange	77,373	77,373
TOTAL	<u>175,523</u>	<u>175,523</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
GENERAL FUND		
Work First	479,240	479,240
Head Start	309,362	309,362
4C Schooling	1,778	1,778
TOTAL	<u>790,380</u>	<u>790,380</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
GENERAL FUND		
Service Learning	14,396	14,396
Learning to Give	2,671	2,671
TOTAL	<u>17,067</u>	<u>17,067</u>
GRAND TOTAL	<u><u>\$ 2,248,507</u></u>	<u><u>\$ 2,248,507</u></u>

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kldrake@voyager.net

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

We have audited the financial statements of Shelby Public Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We have conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shelby Public Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, PC
Certified Public Accountant

August 19, 2005

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kldrake@voyager.net

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

Compliance

We have audited the compliance of Shelby Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Shelby Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shelby Public School's management. Our responsibility is to express an opinion on Shelby Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shelby Public School's compliance with these requirements.

In our opinion, Shelby Public School's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

The management of Shelby Public School's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shelby Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Karl L. Drake". The signature is written in a cursive, flowing style.

Karl L. Drake, PC
Certified Public Accountant

August 19, 2005

SHELBY PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2005

Summary of Auditor's Results

1. The auditor issued an unqualified report on the financial statements of Shelby Public Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Shelby Public Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Shelby Public Schools had four major programs - Title I, Work First, Head Start, and the Child Nutrition Cluster.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Shelby Public Schools qualified as a low risk auditee under Section 530.

Findings Related to the Financial Statement

NONE

Findings and Questioned Costs for Federal Awards

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2005

There were no prior audit findings.

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kldrake@voyager.net

August 19, 2005

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

We have audited the general purpose financial statements of Shelby Public Schools for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005.

In planning and performing our audit of the general purpose financial statements, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of Shelby Public Schools is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations and to make suggestions to improve upon the existing internal control structure.

Financial Overview

The General Fund finished the year with a fund balance of \$4,069,736. This is a decrease of \$1,525,129 from the prior year balance. The cafeteria fund ended with a fund balance of \$107,585, which is a decrease of \$420 from the prior year balance. Long-term debt decreased by approximately \$1,100,000. The overall financial status of the School District remains excellent.

The Statement of Net Assets and Statement of Activities based on the total of all governmental funds shows the School District with total net assets of \$7,848,505. This is a decrease of \$349,716 from the prior year level.

GASB 40

New GASB (Government Accounting Standards Board) pronouncements are occurring at a record pace. Several of them are not applicable to Shelby Public Schools. GASB 40 required the District to revise its investment policy to be in compliance. This revision was approved before June 30, 2005, keeping the District in compliance with the regulation.

GASB 46

Statement 46 clarifies sections of GASB 34. It specifically states that governments are not allowed to reserve portions of net assets in the financial statements, unless an external party restricts the net assets. Fund balance designations can still be made on the fund financial statements, but cannot appear on the district-wide financial statements.

GASB 47

Statement 47 formalizes the necessary accounting treatment for termination benefits. If early retirement incentives, etc. are offered, or if employees are terminated with future payments due them, the liability for these future obligations must be entered into the accounting records when the agreements are formalized. GASB 47 outlines the details of the timing of the accounting entries.

The above comments are intended for the use of the Board of Education and management of Shelby Public Schools. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, CPA